

Chat Log MML PA 202 Webinar July 25, 2018

1. Is this webinar mainly for those plans that need corrective action plans?
 - a. The webinar provided an overview of the entire Public Act 202 of 2017 process to date. The webinar included the yearly required Retirement Systems Annual Report (Form 5572), the waiver process, and the corrective action plan process.
2. Our Twp. will be able to come up with a plan to comply with the MERS plan. However, there seems to be no way to fund our retiree health care. We pay nearly \$600,000 per year in retiree health care, and it is 0% funded. What options do we have? Thanks!
 - a. Treasury recommends reviewing the Best Practices and CAP Criteria approved by the Municipal Stability Board (the Board), which can be found at [Michigan.gov/MSB](https://michigan.gov/MSB). This document was created to assist local units in sustaining fiscally stable retirement systems, protecting benefits for retirees, and providing high quality public services to residents.
3. Will PowerPoint be available online after the webinar?
 - a. Yes, this document can be found at [Michigan.gov/LocalRetirementReporting](https://michigan.gov/LocalRetirementReporting) and [MML's website](#).
4. Is there a time frame once a waiver has been submitted that we can expect to hear back?
 - a. Once received, Treasury's goal is to have a waiver application reviewed and the results communicated within 45 days after receipt. To view the status of your retirements systems, please check the Local Retirement System Summary with Data report found at [Michigan.gov/LocalRetirementReporting](https://michigan.gov/LocalRetirementReporting), which is updated weekly. Once the waiver is reviewed, Treasury will email a letter notifying the local unit of the status of their waiver. If applicable, retirement letters for each local unit can also be found at the Treasury document search [site](#). If after waiting 45 days after you submit your waiver and do not see an update at [Michigan.gov/LocalRetirementReporting](https://michigan.gov/LocalRetirementReporting), please contact treasury by e-mailing LocalRetirmentReporting@michigan.gov.
5. Is the funded ratio based on the percentage of net position to pension liability or percentage net position to actuarial accrued liability (AAL)? Same question for OPEB with new GASB 75 liability?
 - a. For pension, the funded ratio looks at each system's assets (system fiduciary net position ending) divided by its liabilities (total pension liability ending).
 - b. For health care systems (OPEB), the funded ratio looks at each system's actuarial value of assets divided by the system's actuarial accrued liabilities (AAL).

- c. As GASB 75 is implemented, Treasury will provide additional guidance regarding health care systems (OPEB) reporting.
- 6. What if some of the Unfunded Liability is attributable to an Enterprise Fund, such as a Water-Sewer Fund? Governmental Revenues is a large component but not the only one in some cases.
 - a. Pursuant to Section 3(g) of Public Act 202 of 2017, revenues must be reported on the modified accrual basis from the fund-based statements and not the government-wide based statements. All other financing sources including, but not limited to, Interfund Transfers, Bond Proceeds, sale of Capital Assets, Proprietary-, Fiduciary-, Enterprise funds, or other restricted funds must not be included in the calculation of Governmental Fund Revenues. However, Treasury is allowing local units to include this revenue as part of the other considerations section within their waiver application. This information will be considered in conjunction with other key factors during the waiver review, such as the timeframe listed to reach the minimum funded ratio requirement.
- 7. Regarding OPEB - How do you report pay as you go programs?
 - a. The Retirement Systems Annual Report (Form 5572) information comes from your most recent audited statements, which is required for both “pay as you go” systems as well as prefunded systems. For more detailed instructions and data sources please visit our website at Michigan.gov/LocalRetirementReporting, [where you can find FAQs, Forms, and Instructions](#).
- 8. Our defined benefit Pension System is strictly offered to our Police, Dispatch and Fire employees only. There are no "General Employees" as part of this system. Under the Act, one of the triggers is greater than 10% of Governmental Revenues, this is however misleading as a community cannot utilize Act 51 monies, Cable Funding (PEG fees), Library, etc. to fund Public Safety employees. They are General Fund employees only. In our situation we are 40% funded but do not meet the second trigger because of how the legislation is written. It is not one size fits all. Is that something that is going to be corrected to accurately reflect the way a community pension funding is determined? Same goes for Health Care, as we have other funding sources not considered in the legislation?
 - a. See question 6 above related to what funds are to be used in “governmental Revenues”. If a local unit does not trigger they are still encouraged to review the Best Practices and CAP Criteria approved by the Municipal Stability Board (the Board), which can be found at Michigan.gov/MSB.
- 9. What are the next steps after a local unit’s corrective active plan has been approved by the Municipal Stability Board (the Board)?

- a. As required by Public Act 202 of 2017, the Board will monitor each underfunded local unit's compliance with the Act and their approved corrective action plan. Additional guidance will be forthcoming regarding the corrective action plan monitoring process in the coming months.

10. What was the scope of review for waivers under Public Act 202 of 2017?

- a. The waivers were reviewed within a narrow scope. Approvals were granted to those local units with significant documented actions to address the underfunded status in the near term.

11. What is underfunded status per Public Act 202 of 2017 (the Act)?

- a. For cities, villages, townships or counties (primary units of government), subsection (5)(4) of the Act defines underfunded status as follows:
 - i. For Retirement Pension Plans: A determination of "underfunded status" is made if the plan total assets are less than 60% of the plan total liabilities (assets/liabilities < 60%) and the annual required contribution is greater than 10% of total governmental fund revenues (ARC/Revenues > 10%).
 - ii. For Retirement Health Care Plans (OPEB): A determination of "underfunded status" is made if the plan total assets are less than 40% of the plan total liabilities (assets/liabilities < 40%) and the annual required contribution is greater than 12% of total governmental fund revenues (ARC/Revenues > 12%).
- b. For authorities, districts, and other local non-primary units of government, subsection (5)(4) of the Act defines underfunded status as follows:
 - i. For Retirement Pension Plans: A determination of "underfunded status" is made if the plan total assets are less than 60% of the plan total liabilities (assets/liabilities < 60%).
 - ii. For Retirement Health Care Plans (OPEB): A determination of "underfunded status" is made if the plan total assets are less than 40% of the plan total liabilities (assets/liabilities < 40%).

12. What if the unit does not have a governing board, such as a district court?

- a. For District Court we will accept the approval of the Chief Judge. For other units that do not have a governing board, please schedule an appointment using the [Local Retirement Calendar](#) to discuss your unique situation. A staff member will contact you at your scheduled time.

13. Is there a biography for the three Municipal Stability Board (the Board) members?

- a. Information about the Board and its members can be found at Michigan.gov/MSB. There is also information on best practices for local units and

corrective action plan (CAP) approval criteria.

14. What is a reasonable timeframe to reach 60% funded for pension plans and 40% funded for health care (OPEB) plans?

- a. The Municipal Stability Board (the Board) has released their best practices and corrective action plan (CAP) approval criteria which includes details about the maximum timeframe to reach 60% for pension systems and 40% for OPEB systems respectively. The best practices and CAP approval criteria can be found at [Michigan.gov/MSB](https://www.michigan.gov/MSB).

15. What happens if my corrective action plan is approved and my local unit reaches a funding ratio of 60% funded for pension plans and 40% funded for health care (OPEB) plans, and then the assumptions change, causing my unit to trigger underfunded status again?

- a. The Municipal Stability Board (the Board) is still developing their monitoring process. The Board and Treasury will notify the local units with any updates to that process. If a local unit successfully administers their corrective action plan and then triggers underfunded status in the future, they would have the option to submit a waiver. If the local unit's waiver is denied or they choose to not submit a waiver, they would be required to submit a new corrective action plan. The new corrective action plan could include the options previously implemented, as well as future actions as necessary.

16. My local unit has more than one retirement system, but not all of them triggered underfunded status. Do we need to apply for a waiver for each system?

- a. For systems that do not trigger you do not have to submit the optional waiver process or a Corrective Action Plan.

17. Public Act 202 of 2017 requires the Treasurer to establish Uniform Assumptions, when will they be released?

- a. The Treasurer anticipates releasing the Uniform Assumptions in the next 30 to 90 days.

18. Can we send relevant portions of documents as attachments, or do we need to attach the entire document to the Waiver Application?

- a. It is at the discretion of the local unit to determine which documents or sections of documents are necessary to adequately support your waiver submission. To aid Treasury in the review process, it is recommended that each local unit outline the most relevant page numbers within their supporting documentation. Examples of this can be found within the sample statements listed in the waiver

application form.

19. Can the Corrective Action Plan be modified annually?

- a. Yes, while the Municipal Stability Board (the Board) is still developing their monitoring process and additional guidance is forthcoming we anticipate prospective actions may need to be adjusted or changed based on factors that may be outside locals direct control (collective bargaining, section 312 arbitration, millage votes, etc.).

20. Do additional underfunded contributions need to be sent directly to pension or OPEB system provider or can the local unit hold the funds in a budgeted retirement fund to comply with PA 202?

- a. As required by Public Act 202, the funding ratio must come from the most recent audited financial statements. Treasury recommends that the local unit consult with its legal counsel, auditors, and or CPA firm to determine the appropriate strategy to ensure that funds allocated as retirement assets are considered in the calculation of the system's funded ratio. Setting up a "qualified trust" is a typical strategy utilized by local units to assist with meeting funding requirements.

21. What if our Retiree Health Insurance Premiums are pay-as-you go? How is the funding requirement affected by that?

- a. The Municipal Stability Board (the Board) has released their best practices and corrective action plan (CAP) approval criteria, which includes details about the funding requirements. The best practices and CAP approval criteria can be found at Michigan.gov/MSB. This document is applicable for both "pay as you go" systems as well as prefunded systems. The expectation is that all local units must move toward funding their retiree healthcare plan, so it can reach 40% within 30 years.

22. A common question from non-financial stakeholders (e.g. elected officials, residents) is if the City does not comply with PA 202 legislation, what will the State do? Withhold state sharing revenue? Impose fines? etc...

- a. Treasury encourages all local units to remain compliant with local, state, and federal laws. If a local unit does not comply with Public Act 202 of 2017 (the Act) they will be noted on all public reports available on the web and sent to the legislature. Retirement security and affordability is widely considered an important issue for many local employees, residents, retirees and the legislature. Treasury is available to partner with local units on potential solutions to these complex problems, and we look forward to working together to ensure

compliance with the Act.

23. How does paying "normal cost" affect pay as you go?

- a. Paying the "normal cost", or annual service cost as it is earned during active employment, is a prefunding policy to set aside assets for future benefit payments. A "pay as you go" policy simply funds the current retiree's premium payments for the current year. and does not set aside any funds to pay for future retiree premium payments. Paying the sum of the normal cost and an amortized portion of the unfunded actuarial accrued liability is recognized as a best practice to ensure the local unit can afford the expected cost of all promised benefits not only now, but also in to the future.

24. Regarding Affordability for Pensions in your best practices document, you state that a government should remain under 10 percent of general fund revenues for its annual funding. How can this work for an organization whose ARC shows a much larger figure, perhaps 20 to 30%?

- a. When designing the corrective action plan (CAP) approval criteria, the Municipal Stability Board (the Board) defined affordability as "annual required contributions should remain less than 10 percent of general fund operating revenues for pension systems and less than 12 percent of general fund operating revenues for retirement health systems" in accordance the Act. This percentage allows the local unit to sustaining fiscally stable retirement systems, protecting benefits for retirees, and providing high quality public services to residents. The criteria should be used to develop a plan that is affordable to the local unit and does not use a large percentage of the budget, even during an economic downturn.
 - i. Each local unit must certify in Section 5 of their CAP that their correct actions listed in their plan allow for the local unit to make, at a minimum, the annual required contribution payment for the retirement system according to the long-term budget forecast.
 - ii. If the annual required contribution is over 10 percent of general fund operating revenues for pension systems and over 12 percent of general fund operating revenues for retirement health systems the local unit should consider evaluated the plan funding, plan design, and plan administration, to ensure it is affordable in the future.

If you have any questions regarding your underfunded status or the reporting process, please visit Michigan.gov/LocalRetirementReporting for step-by-step reporting instructions and helpful FAQs, or email our office at LocalRetirementReporting@michigan.gov. If you

would prefer to speak with a member of our team, please schedule a phone call appointment using the [Local Retirement Calendar](#). A staff member will contact you via the phone number you provide at your scheduled time.